UPDATE 31 August 2018

BRITISH EMPIRE TRUST
INVESTING IN UNDERVALUED ASSETS

Manager's Comment

In a month which saw marked US outperformance versus the rest of the world, BTEM's NAV fell by -0.7% with losses from discount widening offset somewhat by underlying NAV growth and contributions from FX.

Top contributors in descending order were Riverstone Energy, Pershing Square Holdings, NB Private Equity, Investor AB, and Wendel; detractors from performance included Cosan Limited, Jardine Strategic, the Japanese Special Situations Basket, and Symphony International.

Riverstone Energy (RSE)'s official half-year NAV came in almost +2% above market expectations due to lower-than-expected tax and performance fee accruals, and this - in addition to a US dollar tailwind - helped push Riverstone's share price sharply higher (up +5% over the month). NAV performance has been muted over the last year, up just +5% in the company's functional currency of USD with over half of this increase due to US tax reform. The casual observer might regard this as chronic underperformance given the headline oil price (WTI spot price) is up +40% over the period, but this masks the move of the oil price curve into backwardation with forward prices having risen by significantly less than spot prices. With so much of RSE portfolio's value being in the ground rather than in current production, it is the prices years out that are relevant for NAV-based valuations of portfolio companies. A further headwind is at work from the contraction in EV/ EBITDA multiples for US E&P companies over the last year, depressing valuations for portfolio companies carried out on a comparable peer multiple approach. Lastly, RSE has a quarter of its portfolio by value in the Permian basin where infrastructure bottlenecks have led to oil produced in the basin selling at as much as an $18 discount to WTI, albeit with a recovery in recent days to "only" $14.

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Thus, the more nuanced backdrop for RSE's portfolio is much less supportive than one might think from the headlines. That said, we find many reasons for optimism and continue to view RSE as a compelling investment. For example, Riverstone's largest investment, Hammerhead Resources (HHR, 29% of RSE's NAV), operates a significant acreage position across the Montney and Duvernay formations in Western Canada and is therefore far removed from the pricing problems in the Permian (it has substantially resolved its own egress issues through takeaway agreements with another RSE portfolio company, midstream operator Meritage). HHR has an exceptionally long runway for growth with multiple drilling locations at low break-evens that offer extraordinary IRRs at current oil prices, with current production of 30k barrels of oil equivalent per day (boepd) targeted to increase to 120k boepd by 2022. This last point is key: while RSE's portfolio will clearly be affected by swings in the oil price, a critical driver of returns across RSE's largest holdings is growth in production.

Centennial Resource Development (CDEV, 18% of RSE's NAV), the US-listed shale producer headed by legendary CEO Mark Papa, is part of this theme and sports one of the best debt-adjusted production growth rates in the Permian (65k barrels of oil per day expected in 2022 versus less than 20k in 2017). With the lowest net debt level across peers and a talented technical team largely assembled from Mark Papa's previous firm EOG Resources, CDEV has been drilling some of the best-producing wells in the basin and we simply do not see its growth prospects and these attributes reflected in the company's current share price. Critically, CDEV has taken pro-active steps to ensure transportation for its gas production - while gas forms a very low portion by value of CDEV's total output, an inability to "get the gas away" is an impediment to production of far more valuable oil. Its peers that have failed to secure egress for their gas may well run into problems over the next year.

While we try to maintain a healthy scepticism for any attempts to forecast where oil prices are going, Mark Papa's views deserve a hearing more than most. Notably, CDEV is unhedged directionally on oil and Papa's view is that the surplus of future production implied by the downward-sloping oil curve will simply not materialise given what he sees as excessively optimistic views on shale production volumes given infrastructure constraints, a renewed focus on cash-flow and discipline from US E&Ps, and shale basins being more mature than the consensus perhaps appreciates.

Pershing Square Holdings (PSH) continued its recovery with its NAV up +3.1%, driven by strong share price performance at ADP, Chipotle, and Lowe's. PSH's discount continues to remain extraordinarily wide (24% at the time of writing) for a portfolio of large-cap, liquid listed US equities.

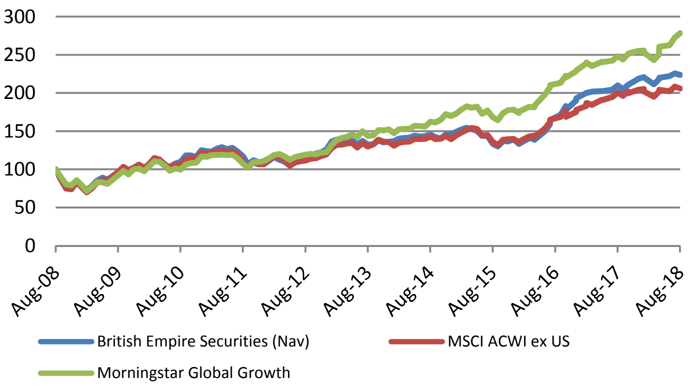
Investment Objective: To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

Performance Total Return

This investment management report relates to performance figures to 31 August 2018.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV[1]	-0.7%	9.5%	3.9%
MSCI ACWI Ex US[3]	-1.2%	5.0%	0.8%
MSCI ACWI Ex US Value[1]	-2.2%	2.4%	-1.0%
MSCI ACWI[1]	1.8%	13.4%	8.0%
Morningstar Global Growth[1]	2.0%	17.0%	12.3%

Performance Total Return AUG 2008 - AUG 2018



Top Ten Equity Holdings

Holding	%
Japan Special Situations***	14.9
Pershing Square Holdings	7.1
EXOR	5.9
Pargesa	5.7
Jardine Strategic	5.6
Fondul Proprietatea	5.6
Riverstone Energy	5.4
Wendel	5.3
Tetragon Financial	5.3
Tokyo Broadcasting System	5.1
TOTAL	65.9

Notwithstanding PSH's turn-around and what we deem to be a very attractive portfolio, it remains our base case that PSH needs to shrink further to properly address its discount.

NB Private Equity benefitted from a narrowing discount, in from 17% to 13% before an impressive write-up in its official year-end NAV (revised up +4% from its previously released figure) announced after month-end pushed its discount out again. A series of important initiatives were recently announced: the dividend policy was tightened up to fix the pay-out at 3% of NAV (with a bias against reducing the nominal amount in the event of short-term NAV fluctuations), which led to an immediate +12% increase in the dividend level; one of the two NB representatives on the Board will resign at the 2018 AGM and the Chairman will do likewise at the 2019 AGM, with two new independent directors to be appointed; half of the legacy funds portfolio will be put up for sale in the secondary market; and a new buyback agreement is being entered into with one of the company's corporate brokers (although the announcement cautioned against seeing this as indicative of a "forthcoming systematic" buyback).

These measures go a long way to addressing some of our concerns, although we would like to see a fully-independent board (the current situation is now analogous to being half-pregnant) and the identity and mind-set of the two new independent director appointees will be critical to ongoing good governance and strategy. The funds portfolio has held back overall portfolio growth in recent years and complicates the marketing story, so we welcome the move to reduce it by half. Our research suggests that a sale of 50% of the funds portfolio should attract a discount of no more than a couple of percentage points if the highest-pricing funds are selected for sale, but our preference is for the whole portfolio to be sold with the proceeds used for an accretive tender offer to more than offset the greater discount on pricing. All said, it is important not to be churlish and to recognise that the package of measures is a clear step in the right direction, and the Board and Manager should be applauded for their willingness to listen to shareholders. All eyes will now be whether the Board uses its buyback authority to tackle and take advantage of the still-too-wide discount to NAV.

Investor AB's share price rose +8% in August, reducing its discount to 27%. Strong NAV growth of +4% was helped by SOBI (7% of NAV), the orphan-drug specialist. SOBI was up +23% over the course of the month (now +159% YTD), as it announced the acquisition of the global rights to a pre-commercial drug, Emapalumab, designed to treat HLH (a rare genetic immune system disease). ABB (11% of NAV) also performed well, up +7%, as it was reported that management are considering the spin-off of their now turned-around Power Grids business. Investor AB's discount remains almost six percentage points wider than its five-year average and we expect to benefit from further discount narrowing and NAV growth given the quality of its portfolio (both listed and unlisted), with an potential IPO of EQT set to reveal more hidden value.

Cosan Limited (CZZ) was our most significant detractor. As discussed in previous commentaries, macro-economic and political factors have weighed heavily on the company's share price, which is now down -31% for the year, with two-thirds of the loss due to the weak Brazilian Real (CZZ is US-listed and priced in USD). Our investment thesis remains intact with CZZ trading on a 56% look-through discount. We remain convinced that the ultimate end-game remains a collapse of the dual holding company structure.

Jardine Strategic (JS)'s NAV grew +1.5% over the month, driven by Dairy Farm (30% of NAV). Despite this, JS's share price fell -9% pushing the company's discount out to 36%, and it is frustrating to see the recent positive trend of discount narrowing reverse. Indonesia's economic troubles, to which JS is exposed via its holding in automotive business Astra, are certainly adding to discount volatility.

The Japanese basket performed broadly in line with a weak Japanese market and thus detracted from returns, while Symphony International's share price (-7.7%) went in the opposite direction to its rising NAV (+2%) on some clumsy selling. We note the management team have been acquiring additional shares in the market on the back of this weakness.

Purchases were made in Japan, and we also added to Fondul Proprietatea, while we continued to reduce our exposure to Aker at discounts in the very low double-digits.

Contributors / Detractors (in GBP)

Largest Contributors	1 month contribution bps	Percent of Assets
RIVERSTONE ENERGY LTD	25	5.4
PERSHING SQUARE HOLDINGS	24	7.1

Largest Detractors	1 month contribution bps	Percent of Assets
COSAN LTD-CLASS A SHARES	-66	3.2
JARDINE STRATEGIC HLDGS LTD	-47	5.6

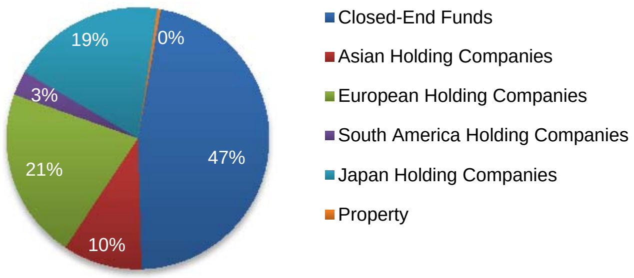
Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR[2]	760.0	-0.3	8.8	72.4	75.4
Net Asset Value TR[1]	830.4	-0.7	6.8	64.4	66.7
MSCI ACWI ex US TR[3]		-1.2	2.8	51.5	58.7
MSCI ACWI ex US Value[1]		-2.2	0.3	45.9	48.6
MSCI ACWI TR[1]		1.8	11.0	68.3	93.9
Morningstar Global Growth TR[3]		2.0	15.3	76.4	108.4

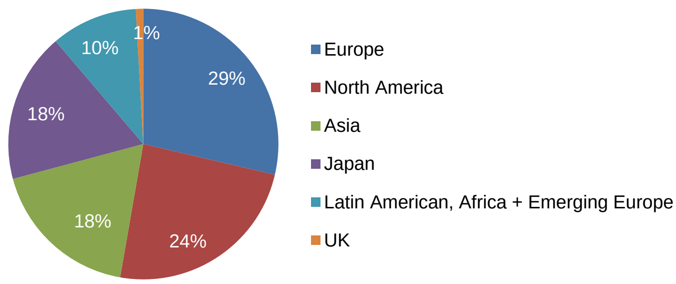
Fiscal Yr Total Returns (%)	2017	2016	2015	2014	2013
Price[1]	18.7	34.3	-9.5	8.9	13.8
Net Asset Value[1]	18.8	31.0	-8.3	6.8	13.1
MSCI ACWI ex US (£)3	16.3	28.0	-5.6	5.1	16.6
MSCI ACWI ex US Value[1]	18.4	25.5	-9.8	5.7	17.1
MSCI ACWI[1]	15.5	31.3	0.4	11.8	18.0
Morningstar Global Growth[3]	21.3	26.9	3.7	8.7	18.9

1 Source: Morningstar. All NAV figures are cum-fair values.
2 Source: Morningstar. Share price total return is on a mid-to-mid basis, with net income re-invested.
3 From 1st October 2013 the lead benchmark was changed to the MSCI ACWI ex US (£) Index. The investment management fee was changed to 0.7% of net assets and the performance related fee eliminated.
* British Empire Trust financial year commences on the 1st October. All figures published before the fiscal results announcement are AVI estimates and subject to change.
** Last audited figure updated annually
*** A basket of 17 stocks: Fujitec Co, Yamato Kogyo, Kato Sangyo, Tachi-S, Nishimatsuya Chain, Pasona Group, Denyo Co, Matsui Construction, Daiwa Industries, Melco Holdings Inc., SK Kaken Co, Kanaden Corp, Toshiba Plant, Nissan Shatai, Teikoku Sen-I, Nakano, Mitsuboshi Belting.

Sector Breakdown (% of invested assets)



Risk Region Breakdown[#] (% of net assets)



[#]AVI estimate. Previously, this breakdown was calculated by assigning one region to each portfolio company held by BTEM. From the 31-Dec-16 newsletter onwards, this is calculated using the estimated multi-regional exposure for each portfolio company. For listed underlying holdings, the country of listing is used; for unlisted underlying holdings, the exposure is typically assigned according to the country where a majority of sales are made.

Capital Structure	
Ordinary Shares	129,526,165
Shares held in Treasury	17,476,613
8 ⅛% Debenture stock 2023**	£15,000,000
4.184% Series A Sterling Unsecured Note 2036	£30,000,000
3.249% Series B Euro Unsecured Note 2036	€30,000,000
2.930% Unsecured Note 2037	€20,000,000
Gross Assets/Gearing	
Gross Assets	£1bn.
Debt par value	£89.4mil.
Actual Gearing (Debt less cash divided by net asset value)	5.9%

Further Information

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The share price can be found under 'INVESTMENT COMPANIES' in The Financial Times, The Times, The Daily Telegraph, The Scotsman and The Evening Standard.

Information may be found on the following websites.

www.british-empire.co.uk or www.assetvalueinvestors.com

IMPORTANT INFORMATION

Risk Factors you should consider before investing

Investment in the British Empire Trust plc (the "Trust") carries risks, which are more fully described in the Key Features Document. Listed below are some of the key risks:

Investors are reminded that past performance is not a guide to future performance and that their capital will be at risk and they may therefore lose some or all of the amounts that they choose to invest in the Trust.

The Trust utilises gearing techniques (leverage) which exaggerate market movements both down and up and which could mean sudden and large falls in market value.

Movements in exchange rates can impact both the level of income received and the capital value of your investment. If the currency of your residence strengthens against the currency in which the underlying investments of the fund are made, the value of your investment will reduce and vice versa.

As with all stock exchange investments the value of investment trust shares will immediately fall by the difference between the buying and selling prices.

Where investments are made in emerging market, unquoted securities or smaller companies, their potential volatility may increase the risk to the value of, and the income from the investment.

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